

CITY OF POLK CITY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2014

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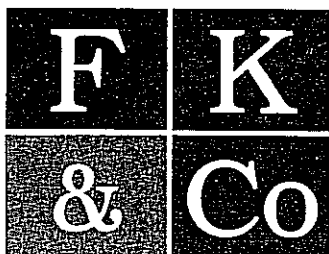
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City of Polk City

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2014)		
Gary Heuertz	Mayor	January 1, 2014
Dan Lane	Mayor Pro-Tem/Council Member	January 1, 2014
Robert Mordini	Council Member	January 1, 2014
David Dvorak	Council Member	January 1, 2016
Ronald Anderson	Council Member	January 1, 2016
Jeff Walters	Council Member	January 1, 2016
Gary Mahannah	City Administrator	Indefinite
Debra Nabity	Finance Officer/Treasurer	Indefinite
Sharon Nickles	City Clerk	Indefinite
Brick Gentry, et al, P.C.	City Attorney	Indefinite
(After January 2014)		
Jason Morse	Mayor	January 1, 2018
Jeff Walters	Mayor Pro-Tem/Council Member	January 1, 2016
Robert Mordini	Council Member	January 1, 2018
David Dvorak	Council Member	January 1, 2016
Ronald Anderson	Council Member	January 1, 2016
Dan Lane	Council Member	January 1, 2018
Gary Mahannah	City Administrator	Indefinite
Debra Nabity	Finance Officer/Treasurer	Indefinite
Sharon Nickles	City Clerk	Indefinite
Brick Gentry, et al, P.C.	City Attorney	Indefinite

City of Polk City



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Polk City, Iowa, (City) as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Modified Opinions

The City was unable to provide documentation of the local option sales tax referendum to determine if those receipts were required to be spent on specific purposes. From its inception through June 30, 2014, the City has received several million dollars of local option sales tax receipts. Because of the lack of documentation, we were unable to determine if the local option sales tax transactions and the related local option sales tax balance was properly accounted for on the financial statements.

Basis for Adverse Opinion on Aggregate Discretely Presented Component Units

The financial statements referred to above do not include financial data for the City's legally separate component units. The basis of cash receipts and disbursements require financial data for these component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. The amount by which this departure would affect the receipts, disbursements and the cash basis balances of the government-wide financial statement for the omitted discretely presented component units has not been determined.

Opinions

Adverse Opinion on Aggregate Discretely Presented Component Units

In our opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component units of the City as of June 30, 2014, or the changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Modified Opinions

In our opinion, except for the possible effects of the matter discussed in the "Basis for Modified Opinions" paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information for the primary government of the City as of June 30, 2014, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

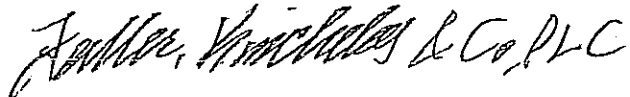
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's primary government financial statements. The financial statements for the nine years ended June 30, 2013 (which are not presented herein) were audited by another auditor who expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the primary government financial statements. Such information has been subjected to the auditing procedures applied in the audit of the primary government financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the primary government financial statements or to the primary government financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the primary government financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 8 through 13 and 27 through 28 has not been subjected to the auditing procedures applied in the audit of the primary government financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 27, 2015, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.



FALLER, KINCHELOE & CO., PLC

March 27, 2015
Des Moines, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Polk City (City) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2014 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased by 1.16%, or \$57,584 from fiscal year 2013 to fiscal year 2014. Property taxes increased by \$55,546, but local option sales tax decreased by \$131,382.
- Disbursements increased by 16.78 % or \$659,479, in fiscal 2014 from fiscal 2013. Public safety, culture and recreation and capital projects increased \$37,816, \$37,525 and \$700,937, respectively, while public works and general government decreased \$28,730 and \$89,603 respectively.
- The City's total cash basis net assets increased 7.62%, or \$295,473, from fiscal year 2013 to fiscal year 2014. Of this amount, the cash basis net position of the governmental activities increased \$441,642 and the cash basis net position of the business type activities decreased by \$146,169.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and support the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the non major governmental funds and the City's indebtedness.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property taxes, local option sales taxes and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, and 3) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer funds, considered to be major funds of the City.

The required financial statements for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

Reconciliations between the government-wide financial statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased sharply from a year ago, increasing from \$3,387,960 to \$3,829,602. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities		
	Year Ended June 30,	
	2014	2013
Receipts:		
Program receipts:		
Charges for service	\$ 620,181	522,178
Operating grants, contributions and restricted interest	420,088	376,598
General receipts:		
Property tax	956,228	900,682
Tax increment financing	363,211	351,706
Other city tax	4,703	-
Local option sales tax	2,557,358	2,688,640
Unrestricted interest on investments	11,173	123,139
Miscellaneous	92,585	9,835
Sale of capital assets	4,835	-
Total receipts	<u>5,030,362</u>	<u>4,972,778</u>
Disbursements:		
Public safety	1,419,542	1,381,726
Public works	436,576	465,306
Health and social services	2,692	-
Culture and recreation	400,294	362,769
Community and economic development	84,548	85,706
General government	600,573	690,176
Capital projects	1,644,495	943,558
Total disbursements	<u>4,588,720</u>	<u>3,929,241</u>
Change in cash basis net position	441,642	1,043,537
Cash basis net position beginning of year (July 1, 2013 restated)	<u>3,387,960</u>	<u>2,337,526</u>
Cash basis net position end of year	<u>\$3,829,602</u>	<u>3,381,063</u>

Receipts by Source

Charges for service	12.33%
Operating grants, contributions and restricted interest	8.35%
Property tax	19.02%
Tax increment financing	7.22%
Other city tax	0.09%
Local option sales tax	50.84%
Unrestricted interest on investments	0.22%
Miscellaneous	1.84%
Sale of capital assets	0.09%

Disbursements by Function

Public safety	30.94%
Public works	9.51%
Health and social services	0.06%
Culture and recreation	8.72%
Community and economic development	1.84%
General government	13.09%
Capital projects	35.84%

The City's total receipts for governmental activities increased by 1.16% or \$57,584. The increase in receipts was primarily the result of an increase in tax receipts and an increase in charges for services.

The City did not increase its property tax rates in fiscal year 2014. The increase in property taxes in fiscal year 2014 was the result of an increase in assessed valuation in fiscal year 2014.

The cost of all governmental activities this year was \$4,588,720 compared to \$3,929,241 last year. However, as shown in the Statement of Activities and Net Position on page 15, the amount taxpayers ultimately financed for these activities was \$3,548,451 because some of the cost was paid by those directly benefited from the programs (\$620,181) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$420,088). The City paid for the remaining "public benefit" portion of governmental activities with property tax (some of which could only be used for certain programs) and with other receipts, such as interest, local option sales tax and miscellaneous receipts. Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2014 from \$892,025 to \$1,040,269.

Changes in Cash Basis Net Position of Business Type Activities

	<u>Year Ended June 30,</u>	
	<u>2014</u>	<u>2013</u>
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 533,075	502,387
Sewer	480,465	447,450
Capital grants, contributions and restricted interest	551,164	-
General receipts:		
Unrestricted interest on investments	7,185	7,593
Miscellaneous	45,281	-
Total receipts	<u>1,617,170</u>	<u>957,430</u>
Disbursements:		
Water	556,204	532,620
Sewer	1,207,135	269,473
WRA debt & capital improvements	-	303,794
Total disbursements	<u>1,763,339</u>	<u>1,105,887</u>
Change in cash basis net position	(146,169)	(148,457)
Cash basis net position beginning of year	<u>491,145</u>	<u>639,602</u>
Cash basis net position end of year	<u>\$ 344,976</u>	<u>491,145</u>

Total business type activities receipts for the fiscal year were \$1,617,170 compared to \$957,430 last year. This increase was due to increased rates and increases usage by citizens and a receipt of a State of Iowa grant. Total disbursements for the year increased by 59.45% to a total of \$1,763,339. This increase was the result of capital improvements funded by the Department of Natural Resources in the current year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City completed the year, its governmental funds reported a combined fund balance of \$3,829,602, an increase of \$441,642 above last year's total of \$3,387,960. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased by \$26,617 from the prior year total of \$2,425,567. This increase is attributable to an increase in receipts from property taxes.
- The Special Revenue Low Moderate Income cash balance increased by \$282,573 from the prior year total of \$869,845. The increase is attributable to an increase in tax increment financing receipts.
- The Capital Projects Fund cash balance increased \$105,505 from the prior year total of (\$22,087). The increase is attributable to transfers in from the General Fund.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased \$15,790 to \$148,394. This increase is attributable to increased charges for services.
- The Enterprise, Sewer Fund cash balance decreased by \$161,959 to \$196,582. This balance decrease is attributable to continuing expenditures of a capital nature.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on March 10, 2014 and resulted in an increase in both disbursements and receipts. The City had sufficient cash balances to absorb these additional costs.

The City's receipts were \$191,560 less than budgeted. This was primarily due to the City receiving less tax increment financing receipts than anticipated, even after the amendment.

The City's disbursements were \$955,463 less than budgeted. This was primarily due to the City spending less than anticipated on capital projects, even after the amendment.

DEBT ADMINISTRATION

At June 30, 2014 the City had no debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Polk City's elected and appointed officials and citizens will consider many factors when setting the fiscal year 2015 budget, tax rates, and fees that will be charged for various City activities. A major consideration will be the planning and timing of necessary and mandated improvements and upgrades to the City's water and sewer treatment plants.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Deb Nabity, Assistant City Administrator-Finance Officer Polk City, and 112 3rd Street, PO Box 426 Polk City, Iowa 50226 or email dnabity@polkcity.org

Primary Government Financial Statements

City of Polk City

Exhibit A

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2014

	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions / Programs:							
Governmental activities:							
Public safety	\$ 1,419,542	586,699	45,711	-	(787,132)	-	(787,132)
Public works	436,576	-	347,061	-	(89,515)	-	(89,515)
Health and social services	2,692	-	-	-	(2,692)	-	(2,692)
Culture and recreation	400,294	29,380	27,055	-	(343,859)	-	(343,859)
Community and economic development	84,548	-	-	-	(84,548)	-	(84,548)
General government	600,573	4,102	261	-	(596,210)	-	(596,210)
Capital projects	1,644,495	-	-	-	(1,644,495)	-	(1,644,495)
Total governmental activities	4,588,720	620,181	420,088	-	(3,548,451)	-	(3,548,451)
Business type activities:							
Water	556,204	533,075	-	-	-	(23,129)	(23,129)
Sewer	1,207,135	480,465	-	551,164	-	(175,506)	(175,506)
Total business type activities	1,763,339	1,013,540	-	551,164	-	(198,635)	(198,635)
Total	\$ 6,352,059	1,633,721	420,088	551,164	(3,548,451)	(198,635)	(3,747,086)
General Receipts:							
Property and other city tax levied for:							
General purposes					956,228	-	956,228
Tax increment financing					363,211	-	363,211
Other city tax					4,703	-	4,703
Local option sales tax					2,557,358	-	2,557,358
Unrestricted interest on investments					11,173	7,185	18,358
Miscellaneous					92,585	45,281	137,866
Sale of capital assets					4,835	-	4,835
Total general receipts					3,990,093	52,466	4,042,559
Change in cash basis net position					441,642	(146,169)	295,473
Cash basis net position beginning of year					3,387,960	491,145	3,879,105
Cash basis net position end of year					\$ 3,829,602	344,976	4,174,578
Cash Basis Net Position							
Restricted:							
Expendable:							
Streets					\$ 133,831	-	133,831
Other purposes					1,161,812	-	1,161,812
Unrestricted					2,533,959	344,976	2,878,935
Total cash basis net position					\$ 3,829,602	344,976	4,174,578

See notes to financial statements.

City of Polk City

Exhibit B

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2014

	General	Special Revenue Low- Moderate Income	Capital Projects	Nonmajor	Total
Receipts:					
Property tax	\$ 956,228	-	-	-	956,228
Tax increment financing	-	323,968	-	39,243	363,211
Other city tax	2,562,061	-	-	-	2,562,061
Licenses and permits	139,514	-	-	-	139,514
Use of money and property	106,332	3,910	-	1,107	111,349
Intergovernmental	54,382	-	-	341,300	395,682
Charges for service	462,289	-	-	-	462,289
Miscellaneous	35,193	-	-	-	35,193
Total receipts	4,315,999	327,878	-	381,650	5,025,527
Disbursements:					
Operating:					
Public safety	1,419,542	-	-	-	1,419,542
Public works	121,369	-	-	315,207	436,576
Health and social services	2,692	-	-	-	2,692
Culture and recreation	400,041	-	-	253	400,294
Community and economic development	-	45,305	-	39,243	84,548
General government	600,573	-	-	-	600,573
Capital projects	-	-	1,644,495	-	1,644,495
Total disbursements	2,544,217	45,305	1,644,495	354,703	4,588,720
Excess (deficiency) of receipts over (under) disbursements	1,771,782	282,573	(1,644,495)	26,947	436,807
Other financing sources (uses):					
Sale of capital assets	4,835	-	-	-	4,835
Operating transfers in	-	-	1,750,000	-	1,750,000
Operating transfers out	(1,750,000)	-	-	-	(1,750,000)
Total other financing sources (uses)	(1,745,165)	-	1,750,000	-	4,835
Change in cash balances	26,617	282,573	105,505	26,947	441,642
Cash balances beginning of year	2,425,567	869,845	(22,087)	114,635	3,387,960
Cash balances end of year	\$ 2,452,184	1,152,418	83,418	141,582	3,829,602
Cash Basis Fund Balances					
Restricted for:					
Streets	\$ -	-	-	133,831	133,831
Other purposes	1,643	1,152,418	-	7,751	1,161,812
Assigned	-	-	83,418	-	83,418
Unassigned	2,450,541	-	-	-	2,450,541
Total cash basis fund balances	\$ 2,452,184	1,152,418	83,418	141,582	3,829,602

See notes to financial statements.

City of Polk City

Exhibit C

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2014

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Use of money and property	\$ 1,815	5,370	7,185
Charges for service	533,075	480,465	1,013,540
Total operating receipts	534,890	485,835	1,020,725
Operating disbursements:			
Business type activities	485,972	411,136	897,108
Total operating disbursements	485,972	411,136	897,108
Excess of operating receipts over operating disbursements	48,918	74,699	123,617
Non-operating receipts (disbursements):			
Intergovernmental	-	551,164	551,164
Miscellaneous	37,104	8,177	45,281
Debt service	-	(19,320)	(19,320)
Capital projects	(70,232)	(776,679)	(846,911)
Net non-operating receipts (disbursements)	(33,128)	(236,658)	(269,786)
Change in cash balances	15,790	(161,959)	(146,169)
Cash balances beginning of year	132,604	358,541	491,145
Cash balances end of year	\$ 148,394	196,582	344,976
Cash Basis Fund Balances			
Unrestricted	\$ 148,394	196,582	344,976
Total cash basis fund balances	\$ 148,394	196,582	344,976

See notes to financial statements.

City of Polk City

Notes to Financial Statements

June 30, 2014

(1) Summary of Significant Accounting Policies

The City of Polk City (City) is a political subdivision of the State of Iowa located in Polk County. It operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general governmental services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

Except as discussed below, for financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City (the primary government) and exclude the City's component units. The component units discussed below are not included in the City's reporting entity although its operational or financial relationship with the City is significant.

Excluded Component Units

The Polk City Firefighters Association was established under Chapter 504 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific financial burdens on the City. The purpose of the Polk City Firefighters Association is to support the activities of the Polk City, Iowa fire department.

The Friends of the Polk City Community Library was established under Chapter 504 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific financial burdens on the City. The purpose of the Friends of the Polk City Community Library is to support the activities of the Polk City, Iowa library.

Jointly Governed Organizations

In 1998, the City joined with fifteen cities and counties to perpetuate the Des Moines Area Metropolitan Planning Organization (Organization) to plan and coordinate the transportation activities for the metropolitan area. The Organization's Board consists of a representative from the governing body of each member city. The members make contributions toward the budget of the Organization. During the year ended June 30, 2014, the City paid the Organization \$6,836.

In 1969, the City, in conjunction with seventeen other cities, created the Metro Waste Authority (the Authority). The Authority Board consists of an elected representative of the governing body of each participating governmental jurisdiction. The purpose of this joint governmental body is to provide for the economic disposal of all solid waste produced or generated by the jurisdictions and private contractors. During the year ended June 30, 2014, the City paid the Metro Waste Authority \$43,514 for the Curb-It Program.

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of or appoint representatives to the following Boards: Polk County Assessor's Conference Board, Joint County/Municipal Disaster Services and Emergency Planning Administration for Polk County, E911 Joint Service Board, Central Iowa Regional Drinking Water Commission, BRAVO, the Polk City Development Corporation and the Greater Des Moines Convention and Visitor's Bureau.

Joint Venture

The City also participates in the Des Moines Metropolitan Wastewater Reclamation Authority (WRA). The WRA, a joint venture, was developed as a result of an agreement between the City of Des Moines and surrounding municipalities. See Note 4.

B. Basis of Presentation

Government-wide Financial Statement - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

The Special Revenue, Low-Moderate Income Fund accounts for monies spent on the low-moderate income program in the City.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities and other capital assets.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there is both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2014, disbursements did not exceed the amounts budgeted. However, disbursements in the capital projects function were exceeded prior to the passage of the budget amendment.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2014 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in the obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$4 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The City's investment in the Iowa Public Agency Investment trust is unrated.

The City Library invested monies in a local non-profit organization (Foundation). At June 30, 2014, the carrying amount and fair value of the investments were \$7,751. The Foundation holds investments in domestic and international equities, fixed income, hedge funds, real estate, private equity and cash.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Public Service Agreement

The City has entered into a contract with Polk County for a joint public service agreement. Since all the construction costs are not yet known, the City is operating from a preliminary payment schedule. During the year ended June 30, 2014, the City paid \$559,793 to Polk County in relation to this agreement. Based on the preliminary payment schedule, as of June 30, 2014, the City is expected to pay Polk County an additional \$15,089,161 through fiscal year 2042 for this agreement. Once the construction costs are known, the City will receive a new amortization schedule from Polk County.

The amount of debt a political subdivision of the State of Iowa can incur is controlled by constitutional debt limit, which is an amount equal to 5% of the actual value of property within the corporate limits, as obtained from the County Assessor's valuation. The debt limit at June 30, 2014 was \$13,346,839. The City's bond attorney has opined that the amount owed to Polk County in relation to the joint public service agreement is not subject to the constitutional debt limit of the City.

(4) Joint Venture and Commitments

The City is a participating community in the Des Moines Metropolitan Wastewater Reclamation Authority (WRA) joint venture. This joint venture provides primary and secondary treatment of sewer flows for the participating communities. The Amended and Restated Agreement for the WRA was effective on July 1, 2004. This agreement amended and restated the previous Integrated Community Area (I.C.A.) Agreement to provide continued operation, improvements and expansion. The WRA Agreement establishes the WRA as a separate legal entity with its own Board, creates an independent governance structure, establishes an independent bonding authority for the WRA and provides a framework for additional communities to participate.

Annually, the WRA establishes an allocation to all participating communities based on operations, maintenance, debt service and reserve requirements. Allocations are based on wastewater reclamation facility flows and are adjusted prospectively for differences in budgeted flows and actual flows.

The City retains an ongoing financial responsibility to the WRA since it is obligated in some manner for the debts of the joint venture through the annual allocation. Although the debt of the WRA is to be paid solely and only from WRA revenues, the participating communities in the joint venture cannot withdraw from the joint venture while any of the bonds issued during the time the communities were a participating community are still outstanding. The WRA Sewer Revenue Bonds Series 2004A, 2006 and 2013B include provisions that place the WRA debt service requirements on the same parity and rank as other debts of the participating communities. The 2004B bonds were refinanced as the 2013B bonds during the year ended June 30, 2013.

The WRA Agreement requires the debt service on these bonds to be allocated to the participating communities based on the WRA flows of the core communities and expansion communities of each calendar year. As of June 30, 2014, the Series 2013B bonds had a balance of \$55,880,000 and the City's estimated future allocation based on the WRA flows is currently \$441,152, or .79%. As of June 30, 2014, the Series 2006 bonds had a balance of \$33,275,000, of which no future principal debt service is a commitment of the City. The State Revolving Loans are to be paid by the participating communities based on the existing allocations under the prior I.C.A. agreement. On June 30, 2014, the State Revolving Loans had a balance of \$249,324,590 and the City's estimated future allocation based on the WRA flows is currently \$1,196,758, or .48%. The pre-2004 State Revolving Loans are to be paid by the participating communities based on the existing allocations under the prior I.C.A. agreement. As of June 30, 2014, the WRA had \$3,506,000 of outstanding pre-2004 State Revolving Loans, of which no future principal debt service is a commitment of the City.

In addition, the City also owes \$1,700,732 in surcharge funds due to the WRA as June 30, 2014.

The WRA Agreement does not provide for the determination of an equity interest for the participating communities. Withdrawing from the joint venture is a forfeit of all reversionary interest and no compensation will be paid. Pursuant to the new agreement, the City's investment in the joint venture under the I.C.A. Agreement has been contributed to the new WRA organization. The City retains a reversionary interest percentage in the net assets of the WRA redeemable only in the event the WRA is dissolved. During the year ended June 30, 2014, the City paid the WRA \$342,436 for operations, maintenance, equipment replacements and debt service payments.

The WRA issues separate financial statements that may be obtained at 3000 Vandalia Road, Des Moines, Iowa 50317-1346 or online at DMMWRA.org.

(5) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 5.95% of their annual covered salary and the City is required to contribute 8.93% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$109,001, \$99,283 and \$82,263, respectively, equal to the required contributions for each year.

(6) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 19 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Coventry Health. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and the plan members are \$343-\$379 for single coverage, \$661-\$802 for employee/spouse coverage, and \$1,018 for family coverage. The difference in the premiums for the same group represents differences in the types of coverage provided. For the year ended June 30, 2014, the City contributed \$153,400 and plan members eligible for benefits contributed \$12,822 to the plan.

(7) **Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and paid time off hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and paid time off termination payments payable to employees at June 30, 2014 is \$45,206. The liability has been computed based on rates of pay in effect at June 30, 2014.

The City's policy allows employees who retire to receive pay for unused sick leave, up to a maximum of 160 hours. The hourly rate of pay used for the payment of unused sick leave would be the hourly pay in effect at the date of retirement. All employees are eligible for this benefit if they retire from the City, and have unused sick leave hours on the date of retirement. Based on rates of pay in effect at June 30, 2014, the unused sick leave maximum liability to the City is \$40,818 at June 30, 2014.

(8) **Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2014 is as follows:

Transfer to	Transfer from	Amount
Capital Projects	General	<u>\$ 1,750,000</u>

The above transfer was made in order to fund the City's capital projects incurred during the fiscal year.

(9) **Risk Management**

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 700 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2014 were \$54,744.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location. Property risks exceeding \$150,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the City's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any reinsurance and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred. As of June 30, 2014, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation in the amount of \$1,000,000 for each accident, \$1,000,000 memorandum limit, and \$1,000,000 each employee. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Rebate Agreements

The City has entered into various rebate agreements to assist in certain urban renewal projects. The agreements require the City to rebate portions of the incremental property tax paid by the developer in exchange for the construction of buildings and certain infrastructure improvements by the developers. Certain agreements also require the developer to obtain a minimum assessed value of the developed property in order to obtain the rebate from the City.

The total to be paid by the City under the agreements is not to exceed \$2,313,900. The total amount rebated during the year ended June 30, 2014 was \$39,243. The City has rebated a total of \$69,738 of incremental property tax under the agreements. The outstanding balance of the agreements at June 30, 2014 was \$2,244,162.

These agreements are not a general obligation of the City. However, the agreements are subject to the constitutional debt limitation of the City, except for \$1,613,900 which has not been appropriated by the City Council at June 30, 2014.

(11) Related Party Transactions

The City had business transactions between the City and City officials, totaling \$505,916 during the year ended June 30, 2014.

(12) Commitments

The City has entered into various contracts for construction projects. These costs were incurred for street and sanitary sewer construction. These projects were ongoing at June 30, 2014. Total remaining to be paid on these contracts was approximately \$67,830 as of June 30, 2014. These construction costs will be paid in fiscal year 2015, and will be paid by the City as work on the projects progress.

The Waterworks agreed to a forty year purchase agreement with Des Moines Waterworks in 2005. As part of this forty year agreement, the Waterworks agreed to purchase no more than the purchase capacity as noted in the agreement.

(13) **Contingency**

The City's local option sales tax referendum was effective January 1, 1986. City personnel were unable to locate ballot documentation as to how these funds were to be spent. As a result, the City was unable to determine whether the City has used the local option sales tax receipts for the purposes specified in the local option sales tax referendum. In the event that it is determined that the City was not spending the local option sales tax receipts for the purposes specified in the local option sales tax ballot referendum, there could be potential liability to the City. However, the amount of potential liability, if any, is unknown.

(14) **Subsequent Events**

The City awarded contracts totaling approximately \$1,000,000 for maintenance and infrastructure projects in fiscal year 2015. The City intends to pay for these projects from existing cash reserves.

The City plans to pay for the cost of a special census, which will cost the City approximately \$100,000.

The City has evaluated all subsequent events through March 27, 2015, the date the financial statements were available to be issued.

(15) **Prospective Accounting Change**

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information.

(16) **Prior Period Adjustment**

The beginning cash basis net assets have been restated to include the Special Revenue, Library Fund. The restatement increased the beginning cash balances.

The effect of this restatement is as follows:

	Special Revenue, Library Fund	Governmental Activities
Balance June 30, 2013, as previously reported	\$ -	3,381,063
Inclusion of Special Revenue, Library Fund	6,897	6,897
Balance July 1, 2013, as restated	\$ 6,897	3,387,960

Other Information

City of Polk City

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2014

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgetd Amounts		Final to Total Variance
				Original	Final	
Receipts:						
Property tax	\$ 956,228	-	956,228	937,566	937,566	18,662
Tax increment financing	363,211	-	363,211	30,000	30,000	333,211
Other city tax	2,562,061	-	2,562,061	2,519,967	2,560,357	1,704
Licenses and permits	139,514	-	139,514	132,400	132,400	7,114
Use of money and property	111,349	7,185	118,534	131,440	119,940	(1,406)
Intergovernmental	395,682	551,164	946,846	366,750	943,664	3,182
Charges for service	462,289	1,013,540	1,475,829	1,274,940	1,344,440	131,389
Special assessments	-	-	-	9,000	11,000	(11,000)
Miscellaneous	35,193	45,281	80,474	361,150	371,770	(291,296)
Total receipts	5,025,527	1,617,170	6,642,697	5,763,213	6,451,137	191,560
Disbursements:						
Public safety	1,419,542	-	1,419,542	1,375,524	1,499,955	80,413
Public works	436,576	-	436,576	513,897	523,097	86,521
Health and social services	2,692	-	2,692	5,000	5,000	2,308
Culture and recreation	400,294	-	400,294	409,593	410,813	10,519
Community and economic development	84,548	-	84,548	180,000	180,000	95,452
General government	600,573	-	600,573	600,620	632,120	31,547
Capital projects	1,644,495	-	1,644,495	1,350,000	2,114,793	470,298
Business type activities	-	1,763,339	1,763,339	1,105,847	1,941,744	178,405
Total disbursements	4,588,720	1,763,339	6,352,059	5,540,481	7,307,522	955,463
Excess (deficiency) of receipts over (under) disbursements	436,807	(146,169)	290,638	222,732	(856,385)	1,147,023
Other financing sources, net	4,835	-	4,835	-	3,200	1,635
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	441,642	(146,169)	295,473	222,732	(853,185)	1,148,658
Balances beginning of year	3,387,960	491,145	3,879,105	3,132,824	3,892,034	(12,929)
Balances end of year	\$ 3,829,602	344,976	4,174,578	3,355,556	3,038,849	1,135,729

See accompanying independent auditor's report.

City of Polk City

Notes to Other Information - Budgetary Reporting

June 30, 2014

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$1,767,041. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2014, disbursements exceeded the amounts budgeted in the capital projects function prior to the March 10, 2014 budget amendment.

Supplementary Information

City of Polk City

Schedule 1

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2014

	Special Revenue			Total
	Road Use Tax	Tax Increment Financing	Library	
Receipts:				
Tax increment financing	\$ -	39,243	-	39,243
Use of money and property	-	-	1,107	1,107
Intergovernmental	341,300	-	-	341,300
Total receipts	341,300	39,243	1,107	381,650
Disbursements:				
Operating:				
Public works	315,207	-	-	315,207
Culture and recreation	-	-	253	253
Community and economic development	-	39,243	-	39,243
Total disbursements	315,207	39,243	253	354,703
Change in cash balances	26,093	-	854	26,947
Cash balances beginning of year	107,738	-	6,897	114,635
Cash balances end of year	\$ 133,831	-	7,751	141,582
Cash Basis Fund Balances				
Restricted for:				
Streets	\$ 133,831	-	-	133,831
Other purposes	-	-	7,751	7,751
Total cash basis fund balances	\$ 133,831	-	7,751	141,582

See accompanying independent auditor's report.

City of Polk City

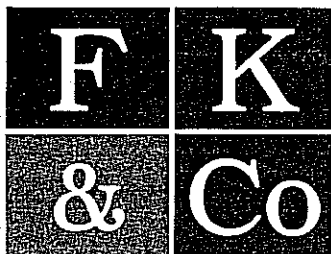
Schedule 2

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Ten Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Receipts:										
Property tax	\$ 956,228	900,682	865,408	815,217	754,431	716,363	672,673	660,567	652,778	541,190
Tax increment financing	363,211	351,706	211,612	201,167	187,303	165,570	139,326	89,476	38,898	1,019
Other city tax	2,562,061	2,688,640	2,496,426	1,852,242	2,407,497	1,839,576	1,837,249	1,618,377	886,977	1,161,315
Licenses and permits	139,514	6,751	4,212	71,554	81,001	64,846	120,258	145,951	336,109	84,345
Use of money and property	111,349	123,139	115,074	126,698	123,873	116,930	194,813	109,141	163,269	142,737
Intergovernmental	395,682	369,847	375,210	347,900	310,792	294,806	355,754	1,095,037	301,478	332,843
Charges for service	492,289	522,178	373,447	195,459	150,842	156,631	105,246	92,250	97,588	148,896
Special assessments	-	-	-	-	46,319	-	-	1,674,518	-	-
Miscellaneous	35,193	9,835	80,546	46,040	43,668	71,491	81,185	52,628	78,644	377,689
Total	\$ 5,055,527	4,972,778	4,521,935	3,656,277	4,105,726	3,426,213	3,506,504	5,537,945	2,555,741	2,790,034
Disbursements:										
Operating:										
Public safety	\$ 1,419,542	1,381,726	1,209,217	831,653	822,826	825,688	1,197,167	769,747	641,447	695,097
Public works	436,576	465,306	388,778	486,582	437,051	611,167	311,412	410,598	542,564	376,903
Health and social services	2,692	-	2,569	-	4,681	-	7,500	-	12,081	6,519
Culture and recreation	400,294	362,769	363,820	423,770	394,666	340,042	352,076	389,241	276,196	296,841
Community and economic development	84,548	85,706	329,877	146,792	83,972	154,600	22,500	10,000	41,466	15,436
General government	600,573	690,176	553,114	621,780	612,431	572,733	444,456	439,144	792,342	342,946
Debt service	-	-	-	-	-	-	-	-	-	375,000
Capital projects	1,644,495	943,558	1,863,968	1,758,427	1,756,896	857,113	1,184,008	2,224,242	1,364,368	2,306,711
Total	\$ 4,588,720	3,929,241	4,711,343	4,269,004	4,112,523	3,361,343	3,519,119	4,242,972	3,670,464	4,415,453

See accompanying independent auditor's report.



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the primary government financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Polk City, Iowa (City) as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the City's primary government financial statements, and have issued our report thereon dated March 27, 2015. Our report expressed modified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles, since the City was unable to provide documentation of the local option sales tax referendum to determine if those receipts were required to be spent on specific purposes. We expressed an adverse opinion on the financial statements of the discretely presented component units due to the omission of the Polk City Firefighters Association and the Friends of the Polk City Community Library.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items (A), (C), (D) and (E) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings as item (B) to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of non-compliance or other matters which is required to be reported under Government Auditing Standards and is described in the accompanying Schedule of Findings as item (A) on page 35.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City's Responses to the Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


FALLER, KINCHELOE & CO., PLC

March 27, 2015
Des Moines, Iowa

City of Polk City

Schedule of Findings

Year ended June 30, 2014

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Although one full-time individual and one part-time individual are involved in the accounting duties of the City of Polk City, (City) there is insufficient segregation of duties to prevent one individual from having control over each of the following areas for the City:

- 1) Cash – reconciling bank accounts, initiating cash receipts and handling and recording cash.
- 2) Investments – detailed record keeping, custody and reconciling.
- 3) Long-term debt – recording and reconciling.
- 4) Receipts – collecting, depositing, posting and reconciling.
- 5) Accounting system – performing all general accounting functions and having custody of City assets.
- 6) Disbursements – preparing checks, signing checks and access to the accounting records.
- 7) Petty cash – custody, reconciling and recording.
- 8) Payroll – recordkeeping, preparation and distribution.

Recommendation – We realize with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Evidence of review of reconciliations should be indicated by initials of the independent reviewer and date of the review.

Response – Staff has reviewed internal controls and made the following changes:

In an attempt to better segregate the accounts payable function. We now have the City Clerk paying the bills for the city. With the exception of the credit cards. Supporting documentation for all check payments are then reviewed prior to signing of the checks, by the City Administrator and Assistant City Administrator.

Bank statements are now reviewed by City Administrator when they arrive in the mail. After preparing the bank reconciliations they are given to the City Administrator for review a signature and date.

Conclusion – Response acknowledged.

(B) Financial Reporting – We noted that while management is capable of preparing accurate financial statements that provide information sufficient for City Council members to make management decisions, reporting financial data reliably in accordance with an other comprehensive basis of accounting (OCBOA) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including note disclosures. Due to the technical nature of these requirements, management does not prepare this information, which is a common situation in small entities.

Recommendation – Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare OCBOA financial statements.

City of Polk City

Schedule of Findings

Year ended June 30, 2014

Response – In previous years the city has relied on their auditor to prepare these statements and this is a new recommendation. In the future the city will prepare their OCBOA financial statements prior to the audit.

Conclusion – Response acknowledged.

- (C) Accounting Records – We identified some transactions recorded as a liability or a receivable on the accounting system, even though the City is on the cash basis of accounting. As a result of these differences, material adjustments had to be made to the cash basis financial statements.

Recommendation – The City should implement procedures to ensure the year-end financial statements are prepared in accordance with the cash basis of accounting.

Response – In the future the city will make necessary accounting entries to adjust books from accrual basis to cash basis. This issue will resolved with the preparation of the OCBOA financial statements.

Conclusion – Response acknowledged.

- (D) Fire Department Billings – A private contractor provides billing and collection services for the fire department. However, the City does not receive any documentation from the private contractor documenting a reconciliation of fire department billings, collections and delinquencies. In addition, there does not appear to be any procedures in place to ensure all fire department services are billed.

Write-offs of delinquent fire department billings are not approved by an independent person. Also, it does not appear the City has a formal collection and delinquent write off policy in relation to the fire department collections.

Recommendation – The City should obtain or prepare a monthly report which reconciles fire department billings, collections and delinquencies. In addition, procedures should be implemented to ensure all fire department services are billed. Write-off of delinquent accounts should be approved by an independent person, and the City should implement a formal collection and delinquent write-off policy in relation to the fire department collections.

Response – The city will implement a formal collection and delinquent write-off policy in relation to the fire department. Staff will work with the Fire Department to obtain the necessary reports and reconciliation.

Conclusion – Response acknowledged.

- (E) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled during the fiscal year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts each month. An independent person should review the reconciliation and monitor delinquent accounts each month.

Response – The City has relied on the fact that the General Ledger and Utility Billing Module are interface in the accounting software. In previous audits this has not been a concern. Going forward staff will prepare these reconciliations.

Conclusion – Response acknowledged.

City of Polk City

Schedule of Findings

Year ended June 30, 2014

INSTANCES OF NON-COMPLIANCE:

- (A) Local Option Sales Tax – The City's local option sales tax referendum was effective January 1, 1986. It appears that 50% of the local option sales tax proceeds are to be used for property tax relief, and the other 50% can be used for any purpose.

The City records local option sales tax receipts in the General Fund to be used to pay any General Fund disbursements. From its inception, the City has received several million dollars in local option sales tax receipts. The City does not document how it is in compliance with the requirement that 50% of the local option sales tax monies collected are to be used for property tax relief. Due to the magnitude of local option sales tax collections in relation to the balances of the City's governmental funds, we were unable to determine whether the City has complied with the requirements as documented on the local option sales tax ballot referendum.

Recommendation – The City should also consult with legal counsel to determine compliance with the requirement that 50% of the local option sales tax receipts be used for property tax relief.

Response – We will consult with legal counsel in relation to this.

Conclusion – Response acknowledged.

City of Polk City

Schedule of Findings

Year ended June 30, 2014

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the capital projects function prior to the March 10, 2014 budget amendment. Chapter 384.20 of the Code of Iowa states, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

- (2) Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- (3) Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction/ Description</u>	<u>Amount</u>
Jason Morse, Mayor Son of Ken Morse	Tree purchases	\$ 3,700
Jeff Walters, Council Member Employee of Snyder & Associates	Engineering related services	502,216

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with Ken Morse appear to represent a conflict of interest since total transactions with the individual were more than \$1,500 during the fiscal year and the transactions were not competitively bid.

In accordance with Chapter 362.5(3)(i) of the Code of Iowa, the transactions with Snyder & Associates do not appear to represent a conflict of interest since the Council Member does not own stock in Snyder & Associates.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

- (5) Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- (6) City Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

City of Polk City

Schedule of Findings

Year ended June 30, 2014

- (7) Deposits and Investments – Except as noted at (10) below, no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (8) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City's Annual Financial Report contain a "summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures..." The City's Annual Financial Report reported receipts, disbursements and fund balances which do not agree with the City's records.

Recommendation – The City should ensure all amounts included in future Annual Financial Reports are supported by the amounts recorded in the City's records.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

- (9) Fixed Assets – Sales of fixed assets are not approved by the City Council prior to the sale.

Recommendation – The City should implement procedures to ensure all sales of fixed assets are approved by the City Council prior to the actual sale of the fixed assets

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

- (10) Monies in the Community Foundation of Greater Des Moines – During a prior fiscal year, the Library gave money to the Community Foundation of Greater Des Moines (Foundation) to invest.

The Constitution of the State of Iowa prohibits governmental bodies from making a gift to a private non-profit corporation. Article III, Section 31 states, "No public money or property shall be appropriated for local, or private purposes, unless such appropriation, compensation, or claim, be allowed by two thirds of the members elected to each branch of the General Assembly." In addition, Chapter 392.5 of the Code of Iowa states, in part, "A library board may accept and control the expenditure of all gifts, devises, and bequests to the library."

Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose, by any city officer, employee or other person and which show the receipt, use, and disposition of all city property."

The Iowa Auditor of State previously requested a letter of advice from the Iowa Attorney General regarding gifts to governmental entities and the propriety of a Library Board of Trustees giving proceeds from a gift to a private non-profit Foundation. The Iowa Attorney General issued a letter of advice (advice letter) dated April 22, 2009. The advice letter states, in part:

City of Polk City

Schedule of Findings

Year ended June 30, 2014

"... I do not believe that a city library board may simply donate funds received from private donors to a private non-profit organization to use and invest as the non-profit organization sees fit. Unless the library board retains the ability to oversee expenditures and to demand return of the funds in the event that future trustees do not agree with that delegation of control over the funds, the transaction violates the public purpose and non-delegation principles discussed above. Further, even if safeguards are put in place to assure ongoing oversight and control, I believe that the funds continue to be 'public funds,' subject to the deposit and investment standards contained in Code sections 12B and 12C (of the Code of Iowa) and that the funds must be earmarked and spent for the purpose for which the gift was given. A 28E agreement may provide a vehicle to facilitate joint public and private influence over the use of gifts received by a governmental body, by incorporating ongoing public oversight and accountability to the joint undertaking."

In addition, consistent with the Iowa Attorney General's advice letter, the proceeds and related income are public funds and must be accounted for, deposited and invested pursuant to Chapters 12B and 12C of the Code of Iowa and rules of the City. According to financial reports of the Foundation, the Foundation had investments in domestic and international equities, fixed income, hedge funds, real estate, private equity and cash. These types of investments are not included in the list of allowable investments of public funds specified in Chapter 12B.10(5) of the Code of Iowa.

Also, the agreement with the Foundation does not require the Foundation to notify the City, in writing, of the existence of material weaknesses in internal control or regulatory orders or sanctions regarding the type of services being provided under the agreement.

Recommendation – The City should consult legal counsel and recover the remaining proceeds of the Library's monies. In addition, the City should require an immediate accounting for these public funds from the date of the gift.

Until the City recovers the funds, it should seek to amend the agreement with the Foundation to require the Foundation to notify the City, in writing, of the existence of material weaknesses in internal control or regulatory orders or sanctions regarding the types of services being provided under the agreement.

Response – We will consult with legal counsel in relation to this.

Conclusion – Response acknowledged.

- (11) Credit Cards – The City has credit cards for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls the credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Response – The City has implemented a new credit card policy.

Conclusion – Response acknowledged.

City of Polk City

Schedule of Findings

Year ended June 30, 2014

- (12) Tax Increment Financing – Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness. Chapter 403.19 of the Code of Iowa does not allow a municipality to set aside property tax divided for tax increment purposes for current or future urban renewal projects. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. In addition, Chapter 403.19(6)(b) of the Code of Iowa requires the City to certify the amount of reductions resulting from the reduction of debt or any other reason to the County Auditor.

We noted the following related to the City's TIF certifications.

- For four of the economic development agreements, the City certified the total rebate amount. These four economic development agreements state that the rebate amount shall be subject to annual appropriations. Until appropriated, the payments do not represent debt and, accordingly, should not have been certified as debt.
- For one of the economic development agreements, the City certified a rebate amount in excess of the amount due to the developer. As a result, it appears that as of June 30, 2014, the City overpaid the developer.

Recommendation – The City should consult with TIF legal counsel to determine the disposition of these matters.

Response – Polk City was told to certify the TIF rebates in an amount that would capture the required amount as set forth in the TIF agreements; we were told to not leave it short. Thus, Polk City slightly inflated the rebate amount in an effort to capture any growth. It is important to note in all TIF agreements with Polk City there is an amount of the TIF that will be reached and not exceeded. The certified as debt portion of this finding will be reviewed by Polk City with the Department of Management to determine the correct way to show the TIF rebates.

Through the County not catching a TIF agreement creating a floor, one year the value of the TIF was valued at \$1,100,000 instead of the \$1,200,000, as soon as discovered it was corrected. However one year the floor was less than the agreement stated. The TIF rebate was paid out in the same amount on the basis of what was received from this parcel. The TIF was not over paid, but in actuality was paid less than had been expected due to the floor that was in place at the time. It was learned from the County that the valuation for that one year could not be corrected.

Conclusion – Response acknowledged.

- (13) Financial Condition – The Special Revenue, Low-Moderate Income Fund had a fund balance of \$1,152,418 at June 30, 2014. Total expenditures from this fund in fiscal year 2014 were \$45,305. As a result, the fund balance in this fund may be excessive.

Recommendation – The City should ensure the balance in the Special Revenue, Low-Moderate Income Fund is reasonable.

Response – We will review the Special Revenue, Low-Moderate Income Fund for reasonableness.

Conclusion – Response acknowledged.

- (14) Urban Renewal Annual Report – The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.